



NASDAQ: CBTX

# Gulf South Bank Conference

## May 7-8, 2018



# SAFE HARBOR STATEMENT



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## **NON-GAAP FINANCIAL MEASURES**

This presentation contains certain non-GAAP (generally accepted accounting principles) financial measures, including tangible equity and tangible book value per share. The non-GAAP financial measures that the Company discusses in this presentation should not be considered in isolation or as a substitute for the most directly comparable or other financial measures calculated in accordance with GAAP. A reconciliation of the non-GAAP financial measures used in this presentation to the most directly comparable GAAP measures is provided at the end of this presentation.

## **FORWARD LOOKING STATEMENTS**

This presentation contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect the Company’s current views with respect to, among other things, future events and its financial performance. These statements are often, but not always, made through the use of words or phrases such as “may,” “should,” “could,” “predict,” “potential,” “believe,” “will likely result,” “expect,” “continue,” “will,” “anticipate,” “seek,” “estimate,” “intend,” “plan,” “projection,” “would” and “outlook,” or the negative version of those words or other comparable words or phrases of a future or forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management’s beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, the Company cautions you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions and uncertainties that are difficult to predict. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements. There are or will be important factors that could cause our actual results to differ materially from those indicated in these forward-looking statements, including, but not limited to, the following: the effect of Hurricane Harvey on our markets and business; natural disasters and adverse weather, acts of terrorism, an outbreak of hostilities or other international or domestic calamities, and other matters beyond our control; the geographic concentration of our markets in Beaumont and Houston, Texas; our ability to prudently manage our growth and execute our strategy; risks associated with our acquisition and de novo branching strategy; changes in management personnel; the amount of nonperforming and classified assets that we hold; time and effort necessary to resolve nonperforming assets; deterioration of our asset quality; interest rate risk associated with our business; business and economic conditions generally and in the financial services industry, nationally and within our primary markets; volatility and direction of oil prices and the strength of the energy industry, generally and within Texas; the composition of our loan portfolio, including the identity of our borrowers and the concentration of loans in specialized industries; changes in the value of collateral securing our loans; our ability to maintain important deposit customer relationships and our reputation; our ability to maintain effective internal control over financial reporting; operational risks associated with our business; increased competition in the financial services industry, particularly from regional and national institutions; volatility and direction of market interest rates; liquidity risks associated with our business; systems failures or interruptions involving our information technology and telecommunications systems or third-party servicers; environmental liability associated with our lending activities; the institution and outcome of litigation and other legal proceedings against us or to which we may become subject; changes in the laws, rules, regulations, interpretations or policies relating to financial institution, accounting, tax, trade, monetary and fiscal matters; the effects of the Tax Cuts and Jobs Act; and further government intervention in the U.S. financial system. The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included under “Cautionary Note Regarding Forward-Looking Statements” and “Risk Factors” in the Company’s Annual Report on Form 10-K filed with the SEC on March 23, 2018 and any updates to those risk factors set forth in the Company’s subsequent Quarterly Reports on Form 10-Q or Current Reports on Form 8-K. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and the Company does not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. New factors emerge from time to time, and it is not possible for the Company to predict which will arise. In addition, the Company cannot assess the impact of each factor on its business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

All forward-looking statements, expressed or implied, included in this communication are expressly qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral forward-looking statements that the Company or persons acting on the Company’s behalf may issue. Annualized, pro forma, projected and estimated numbers are used for illustrative purpose only, are not forecasts and may not reflect actual results.

# Company Overview



## BUSINESS BANKING \ BETTER BANKING



## Overview

- Founded in 2007
- Completed IPO in November 2017
- Primarily a business bank, ~85% commercial loans<sup>(1)</sup> as of March 31, 2018
- Seasoned executive management team
- History of organic growth, mergers of equals, and acquisitions
- Diverse and attractive loan portfolio
- Low-cost core funding with ~43% noninterest-bearing deposits and a cost of deposits of 0.31% as of March 31, 2018
- Strong insider ownership of ~29% as of April 2, 2018

## Financial Highlights 3/31/2018

### Balance Sheet (\$000)

Total Assets	\$3,074,790
Total Loans	2,356,053
Total Deposits	2,599,702
Tangible Equity <sup>(2)</sup>	364,100

### Profitability

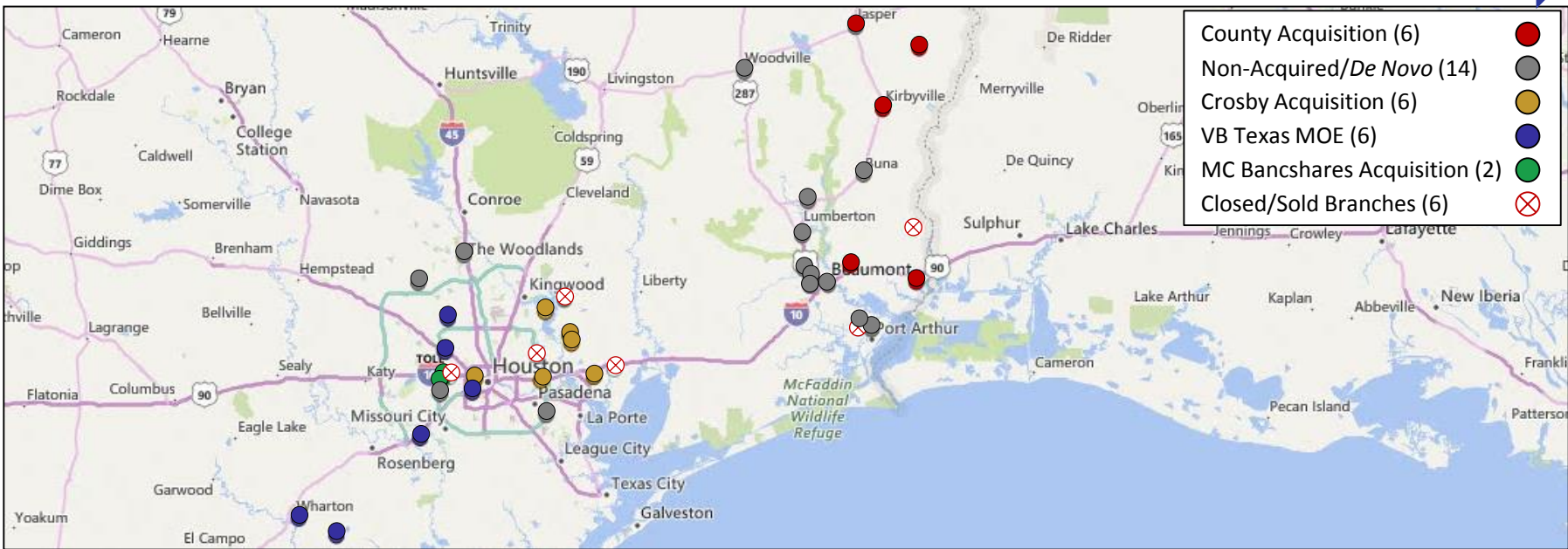
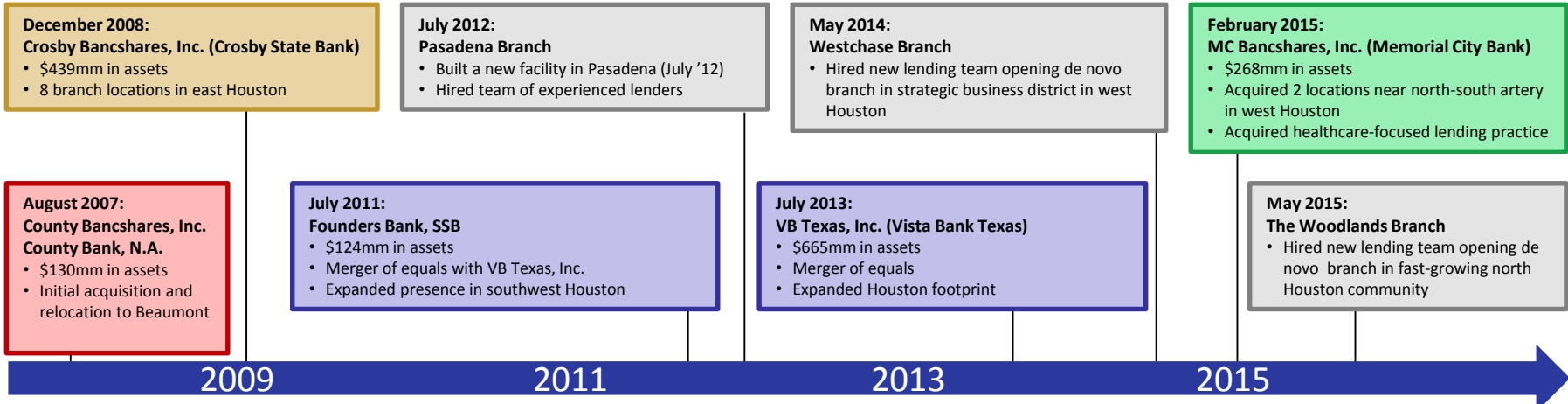
ROAA	1.20 %
ROAE	8.20
Net Interest Margin –Tax Equivalent	4.23
Efficiency Ratio <sup>(3)</sup>	62.60

### Asset Quality

NPAs / Assets	0.20 %
NPLs / Loans	0.24
Reserves / Loans	1.08
NCOs / Avg Loans	0.05

- (1) Commercial loans defined as total loans less 1-4 family residential, consumer, agriculture and other loans
- (2) See Appendix for reconciliation of non-GAAP financial measures
- (3) Represents noninterest expense divided by the sum of net interest income and noninterest income

# Franchise Expansion



# Strengths & Investment Rationale



- Strength of management team
- Significant insider ownership
- Relationship-based business bank with a strong credit culture
- Key emphasis on developing core loan and deposit relationships led by bankers who support clients through tailored financial solutions
- Strength of operating markets
- Platform and team with significant scalability
- Track record of growth and expansion
- Disciplined approach to M&A allows for shareholder value to be enhanced through strategic acquisitions
- Strong operating performance
  - ~\$3.1 billion in assets in one of the most desirable banking markets in the country
  - Attractive and improving ROAA
  - Consistent ~4% net interest margin improving in rising rate environment
  - Low 60s and improving efficiency ratio with scalable infrastructure
- Significant scarcity value – largest Texas community bank focused on Houston and Beaumont markets

# First Quarter Highlights

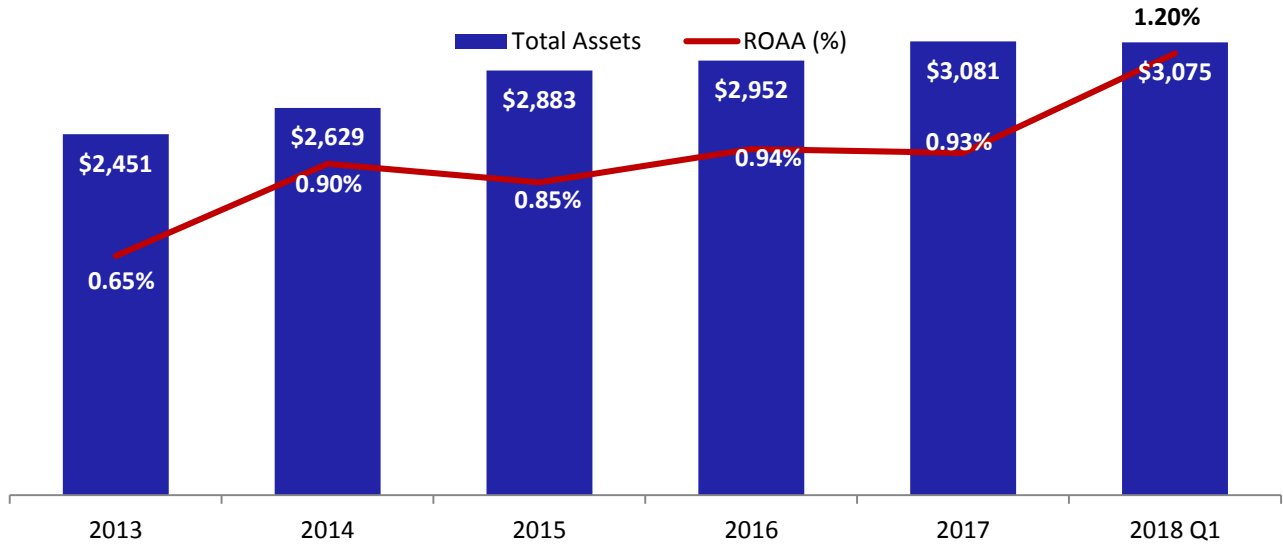


- Net income of \$0.37 per diluted share for the quarter ended March 31, 2018, compared to \$0.31 per diluted share, for the quarter ended March 31, 2017
- Loans increased \$44.5 million during the first quarter of 2018, a 8% annualized growth rate for the quarter
- ~43% noninterest-bearing deposits
- Cost of deposits 0.31%
- Net interest margin – tax equivalent 4.23% for the first quarter of 2018 compared to 4.02% for the first quarter of 2017 and 4.06% for the fourth quarter of 2017
- Continued strong credit quality as nonperforming assets remain low at 0.20% of total assets
- Effective tax rate 19%

# Growth & Transformation

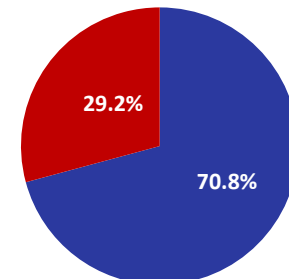
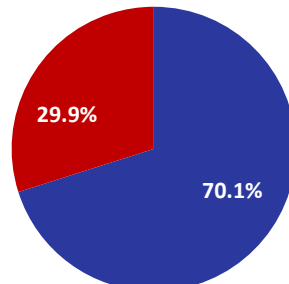
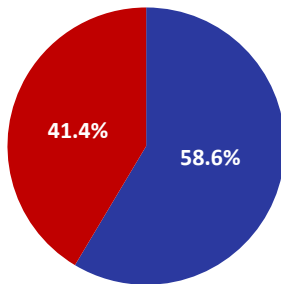


Assets and Earnings Growth (\$ in Millions)



## Transformation of Loan Portfolio

■ Beaumont ■ Houston



2013

2017

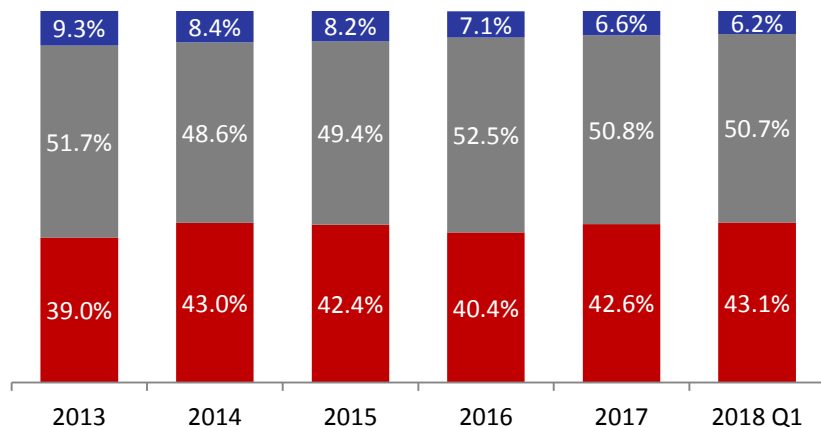
2018 Q1

Note: Figures as of year-end 12/31. 2018 Q1 as of 3/31/2018

# Attractive, Low-Cost Core Deposit Base



## Stable Core Deposit Base



■ Noninterest-Bearing Demand ■ Other Core Deposits ■ Jumbo Time Deposits

Deposit Base	As of March 31, 2018	
	(\$000s)	(%)
Noninterest Bearing Demand	\$ 1,120,521	43.1 %
Interest-Bearing Demand Accounts	345,378	13.3
Savings & Money Market Accounts	813,151	31.3
Certificates and Other Time > \$100K	161,777	6.2
Certificates and Other Time < \$100K	158,875	6.1
<b>Total Deposits</b>	<b>\$ 2,599,702</b>	<b>100.0 %</b>
<b>Cost of Deposits (%)</b>	<b>0.31 %</b>	

Note: Figures as of year-end 12/31. 2018 Q1 as of 3/31/2018

(1) Core deposits defined as total deposits less jumbo time deposits (time deposits over \$100,000)

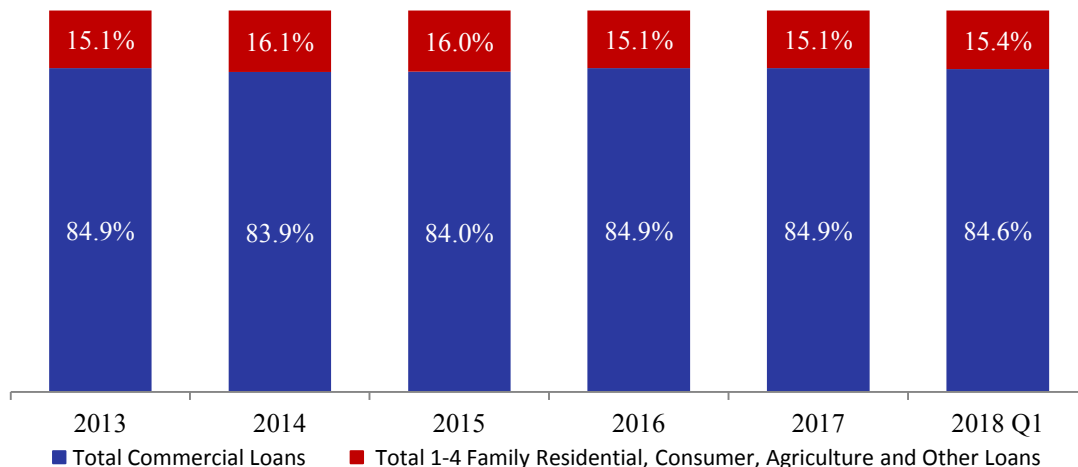
- Proven ability to generate low-cost core deposits to fund loan growth
- 90.6% loan to deposit ratio as of March 31, 2018
- Business banking focus combined with relationship approach results in:
  - ~ 43% noninterest-bearing demand deposits
  - 94% core deposits<sup>(1)</sup> with minimal reliance on time deposits
  - Attractive cost of deposits of 0.31%
  - ~ 82% of loan customers also had a deposit relationship as of March 31, 2018
  - Core deposit mix has remained stable while significantly increasing in size
- Expanded treasury services team
  - Active customer calling effort



# Diversified Loan Portfolio



## Loan Composition Over Time<sup>(1)</sup>



Loan Portfolio	As of December 31, 2017	
	(\$000s)	(%)
Commercial and Industrial	\$ 559,070	23.7 %
Commercial Real Estate and Multi-Family	1,003,108	42.5
Construction and Development	436,260	18.5
1-4 Family Residential	260,580	11.0
Consumer, Agriculture and Other	102,058	4.3
<b>Gross Loans</b>	<b>\$ 2,361,076</b>	<b>100.0 %</b>
Less Deferred Fees and Unearned Discount	4,910	
Less Loans Held for Sale	113	
<b>Total Loans</b>	<b>\$ 2,356,053</b>	
<b>Yield on Loans (%)</b>	<b>4.98 %</b>	

- Commercial loans <sup>(2)</sup> represented approximately 85% of total loans as of March 31, 2018
- Core focus on lending to professionals and local small- and mid-sized businesses
- Key emphasis on developing core relationships
- History of hiring experienced teams of bankers
- Maintained well-diversified loan portfolio with commercial focus

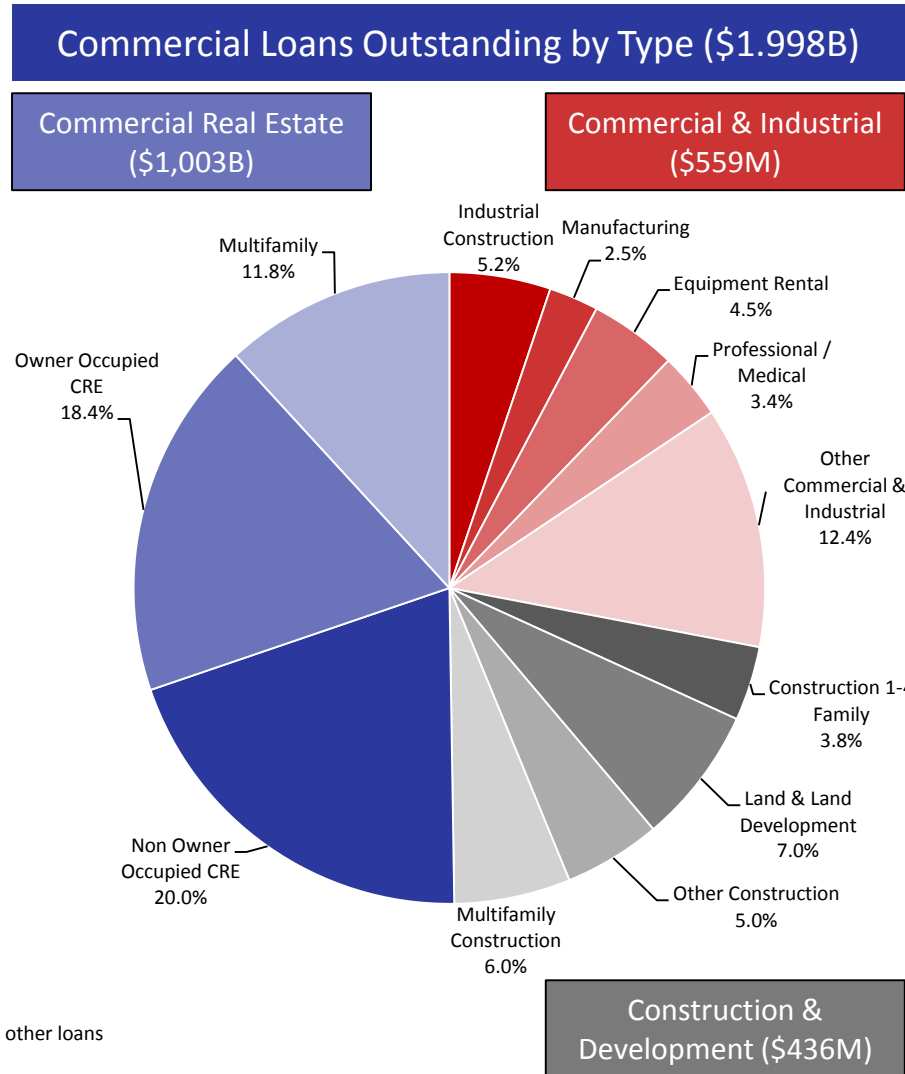
(1) Figures as of year-end 12/31. 2018 Q1 as of 3/31/2018

(2) Commercial loans defined as total loans less 1-4 family residential, consumer, agriculture and other loans

# Core Focus on Commercial Loans



- Industrial Construction/Equipment Rental
  - Provide operating lines of credit, fixed asset financing and real estate loans to numerous industrial companies involved in the construction, modification, support and maintenance of petrochemical plants
  
- Professional/Medical
  - Provide operating lines of credit, fixed asset financing and real estate loans to medical practices, clinics, law firms and professional service firms
  
- Multifamily
  - Multifamily CRE and multifamily construction portfolios are predominantly Texas based community development projects promoting affordable housing
  
- Non-Owner Occupied CRE
  - Predominantly local investor projects (i.e., industrial, office and retail buildings) with investors/developers who have long term CBTX relationships
  
- Owner Occupied CRE
  - Term financing of real estate facilities for businesses and clients



Note: Commercial loans defined as total loans less 1-4 family residential, consumer, agriculture and other loans  
 Note: Figures as of March 31, 2018.

# Construction & Development Loans



Construction & Development Loan Portfolio Segmentation	As of March 31, 2018	
	(\$000s)	(% Tier 1 Capital)
Construction Community Development Multifamily	\$ 110,429	27.6 %
Construction 1-4 Single Family - Primary	27,561	6.9
Construction 1-4 Single Family - Commercial	48,468	12.1
Land – Consumer Lots	15,141	3.8
Land – Commercial Purpose	120,417	30.0
Land Development Loans	4,429	1.1
Commercial Construction Loans	109,815	27.4
<b>Total Construction &amp; Development Loans</b>	<b>\$ 436,260</b>	<b>108.9 %</b>

Note: C & D components as a % of CBTX, Inc Tier 1 Capital

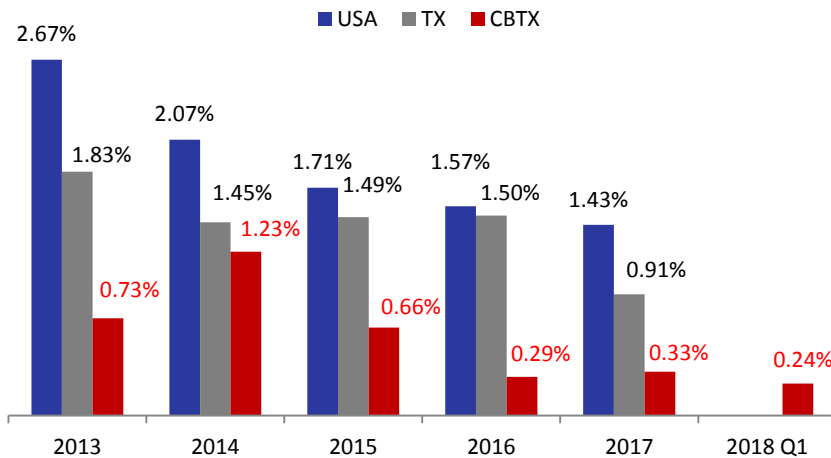
Note: Figures as of March 31, 2018

# Strong Credit Culture

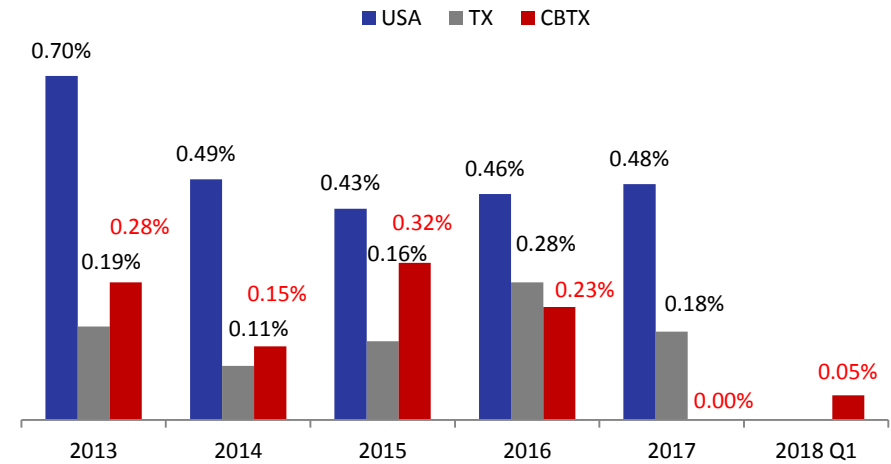


- Chief Credit Officer with 39 years of experience
  - Seasoned Regional Credit Officers located in Houston and Beaumont
  
- Centralized underwriting, tiered approval requirements based on aggregate relationship size:
  - Officer credit authority, credit executive committee, and directors' loan committee
  - Directors' loan committee meets weekly in each market
  
- Receive personal guarantees from principals on the majority of commercial credits

## NPLs / Loans



## Net Charge-Offs / Average Loans



Note: Figures as of year-end 12/31. 2018 Q1 as of 3/31/2018

Note: USA and TX figures based on SNL Financial aggregates for commercial banks

# Revenue Growth & Efficiency

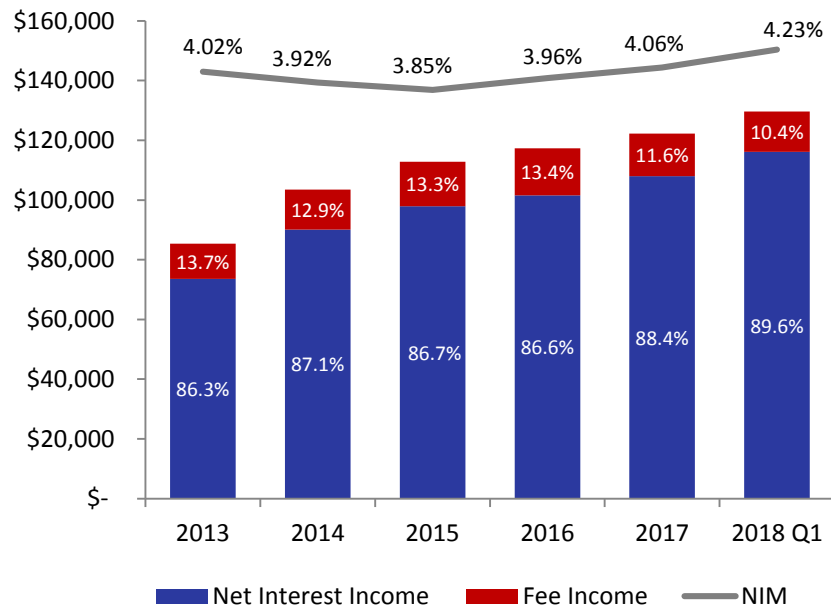


- Stable net interest margin
- Asset sensitive, with 56.6% variable rate loans as of March 31, 2018
- Increasing revenue and improving efficiency ratio <sup>(1)</sup>

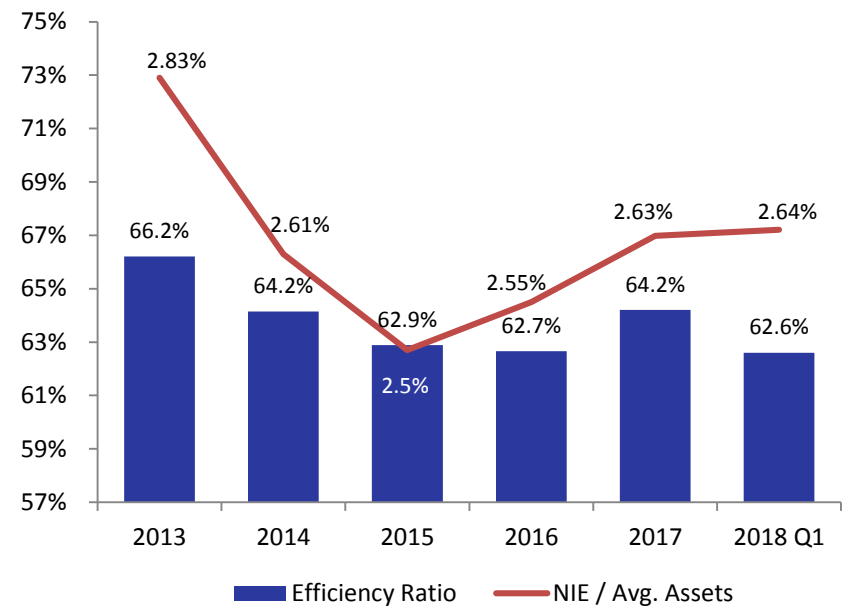
- Efficiency efforts:
  - Lender efficiency project – increasing average loan portfolio per lender since 2012
  - Branch rationalization effort – successful and ongoing
  - Investments in people, technology and systems
  - Infrastructure capable of supporting a much larger bank
  - Resulting scalability should allow for growth without significant expenses

## Historical Revenue and NIM

(\$ in thousands)



## Improving Efficiency <sup>(1)</sup>



Note: Figures as of year-end 12/31. 2018 Q1 as of 3/31/2018

(1) Efficiency ratio represents noninterest expense divided by the sum of net interest income and noninterest income

(2) Includes expense associated with, or triggered by, our initial public offering completed November 2017



## ▪ **Organic Growth:**

- Continue hiring experienced bankers
- Areas of additional expansion within certain lending verticals:
  - Commercial and industrial
  - Medical
  - SBA lending
  - Talent recruitment and retention efforts benefit from being public
- Dedicated focus on gathering core deposits:
  - ~82% of loan customers also have a deposit relationship with us
  - Sophisticated treasury management capabilities

## ▪ **Strategic Acquisitions:**

- Five whole-bank acquisitions completed – Proven ability to source, acquire, and successfully integrate strategic acquisitions, while remaining disciplined
- Additive to overall franchise – Talented bankers, sound credit culture, complementary branch footprint
- Experienced acquirer that consistently pursues acquisition opportunities
- Additional capital and publicly traded shares may increase M&A potential

# Our Brand Promise



## *Our Vision*

Here to Serve.



BUSINESS BANKING \ BETTER BANKING

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## *Our Positioning*

To experienced business owners,  
CommunityBank of Texas, N.A.  
is the financial partner that delivers  
a better banking experience.

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## *Our Personality*

Resourceful, Trustworthy, Friendly  
Responsive, Strong

# Appendix





# Non-GAAP Reconciliations



(Dollars in Thousands, Except per Share Data)

Our management uses certain non-GAAP (generally accepted accounting principles) financial measures to evaluate performance. We have included in this presentation information related these non-GAAP financial measures for the applicable periods presented. The following tables reconcile, as of the dates set forth below, total shareholders' equity to tangible equity and presents book value per share and tangible book value per share:

	As of March 31		As of December 31			
	2018	2017	2016	2015	2014	2013
Total Shareholders' Equity	\$ 451,571	\$ 446,214	\$ 357,637	\$ 344,313	\$ 329,252	\$ 311,139
Adjustments:						
Goodwill	80,950	80,950	80,950	80,950	59,049	59,049
Other Intangibles	<u>6,521</u>	<u>6,770</u>	<u>7,791</u>	<u>8,879</u>	<u>8,903</u>	<u>10,225</u>
Tangible Equity	<u>\$ 364,100</u>	<u>\$ 358,494</u>	<u>\$ 268,896</u>	<u>\$ 254,484</u>	<u>\$ 261,300</u>	<u>\$ 241,865</u>
Common Shares Outstanding <sup>(1) (2)</sup>	24,833	24,833	22,062	22,303	22,534	22,544
<b>Book Value Per Share</b>	<b>\$ 18.18</b>	<b>\$ 17.97</b>	<b>\$ 16.21</b>	<b>\$ 15.44</b>	<b>\$ 14.61</b>	<b>\$ 13.80</b>
<b>Tangible Book Value Per Share</b>	<b>\$ 14.66</b>	<b>\$ 14.44</b>	<b>\$ 12.19</b>	<b>\$ 11.41</b>	<b>\$ 11.60</b>	<b>\$ 10.73</b>

(1) Excludes the dilutive effect, if any, of 260,322, 260,322, 248,314, 647,074, 575,326 and 593,812 shares of common stock issuable upon exercise of outstanding stock options as of March 31, 2018 and December 31, 2017, 2016, 2015, 2014 and 2013, respectively

(2) Excludes the dilutive effect, if any, of 214,080 and 212,580 shares of unvested restricted stock as of March 31, 2018 and December, 31, 2017 respectively